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Older Workers: Employment and Retirement Trends

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Congressional Research Service

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Older Workers: Employment and Retirement Trends

Abstract

As the members of the "baby boom" generation — people born between 1946 and 1964 — approach retirement, the demographic profile of the U.S. workforce will undergo a substantial shift: a large number of older workers will be joined by relatively few new entrants to the labor force. According to the U.S. Bureau of the Census, while the number of people between the ages of 55 and 64 will grow by about 11 million between 2005 and 2025, the number of people who are 25 to 54 years old will grow by only 5 million. This trend could affect economic growth because labor force participation begins to fall after age 55. In 2004, 91% of men ages 25 to 54 and 75% of women in this age group participated in the labor force. In contrast, just 69% of men ages 55 to 64 and 56% of women ages 55 to 64 were either working or looking for work in 2004.

Keywords

worker, employment, retirement, trend, U.S., work, labor, social security, men, women, force

Comments

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Older Workers: Employment and Retirement Trends

September 14, 2005

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Older Workers: Employment and Retirement Trends

Summary

As the members of the "baby boom" generation — people born between 1946 and 1964 — approach retirement, the demographic profile of the U.S. workforce will undergo a substantial shift: a large number of older workers will be joined by relatively few new entrants to the labor force. According to the U.S. Bureau of the Census, while the number of people between the ages of 55 and 64 will grow by about 11 million between 2005 and 2025, the number of people who are 25 to 54 years old will grow by only 5 million. This trend could affect economic growth because labor force participation begins to fall after age 55. In 2004, 91% of men ages 25 to 54 and 75% of women in this age group participated in the labor force. In contrast, just 69% of men ages 55 to 64 and 56% of women ages 55 to 64 were either working or looking for work in 2004.

The rate of employment among persons age 55 and older is influenced by general economic conditions, eligibility for Social Security benefits, the availability of health insurance, and the prevalence and design of employer-sponsored pensions. Labor force participation among people 55 and older may, for example, be affected both by the trend away from defined-benefit pension plans that offer a monthly annuity for life to defined contribution plans that typically pay a lump-sum benefit. The declining percentage of employers that offer retiree health insurance also may result in more people continuing to work until they are eligible for Medicare at 65.

Recent Census Bureau data show that men and women age 62 and older are working more today than they were ten years ago. From 1996 to 2005, the percentage of 62- to 64-year-old men who were employed in March of each year rose from 43% to 51%. Throughout the period, about four-fifths of these men worked full-time. The percentage of 65- to 69-year-old men who were employed increased from 27% to 30% during the same period, and the percentage of employed 65 to 69 year-old men who worked *full-time* rose from 57% in 1996 to 68% in 2005. Among women 62 to 64 years old, the rate of employment increased from 32% in 1996 to 37% in 2005, and the percentage of 62 to 64 year-old working women who were employed full-time increased from 59% to 67%. At the same time, the percentage of 65- to 69-year-old women who were employed rose from 17% to 23%, and the percentage of working women in this age category who worked a full time schedule rose from 40% to 51%.

As more workers reach retirement age, employers may try to induce some of these workers to remain on the job, perhaps on a part-time basis. This is sometimes referred to as "phased retirement." Several approaches to phased retirement — job-sharing, reduced work schedules, and rehiring retired workers on a part-time or temporary basis — can be accommodated under current law. Under current law, however, a pension plan cannot pay benefits unless the recipient has either separated from the employer or has reached the pension plan's *normal retirement age*, which in most plans is 65. Some employers would like to have the option to pay partial pension distributions to workers who have reached the pension plan's *early retirement age*. This would require a change in federal law.

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The retirement of older workers affects both their personal economic circumstances and the nation's economy. The number of people retiring each year affects the size of the labor force, which has a direct impact on the economy's capacity to produce goods and services. Other things being equal, fewer retirements in any given year would result in a greater supply of experienced workers available to employers and fewer people relying on savings, pensions, and Social Security as their main sources of income. Consequently, changes in the age-profile of the population and the average age at which people retire have implications for both the growth of national income and the size and composition of the federal budget.

To understand the factors that affect the retirement decision, one must first know what it means to be "retired." Retirement is most often defined with reference to two characteristics: whether an individual participates in the paid labor force, and whether he or she receives income from a pension or Social Security. An individual who does not work for compensation and who receives income only from pensions or Social Security would be retired according to both parts of this definition, while one who works for compensation and receives no income from pensions or Social Security would not be retired according to either part of the definition.

Between these two extremes, however, are those who might be considered to be retired based on one part of the definition but not the other. For example, individuals who have retired from careers in law-enforcement or the military — both of which typically provide pensions after 20 years of service — often work for many years at other jobs, while also receiving a pension from their prior employment. In such cases, having retired from a particular occupation does not necessarily mean that one has retired from the workforce. On the other hand, many people who retire from full-time employment continue to work part-time to supplement the income they receive from pensions and Social Security. If the majority of their income is provided by Social Security, pensions, and savings, economists typically classify them as retired, even though they continue to engage in paid employment. As these examples suggest, not everyone who receives pension income is retired, and some people who work for pay actually are retired.

This report begins by describing the change in the age distribution of the U.S. population that will occur between 2005 and 2025 and summarizing the historical data on the labor force participation of older workers. This discussion is followed by an analysis of data from the Census Bureau's *Current Population Survey* on employment and receipt of pension income among persons age 55 and older. Employment trends among older workers are then discussed in the context of data from the Social Security Administration on the proportion of workers who claim retired-worker benefits before the full retirement age (currently 65 years and 6 months). The final section of the report discusses recent proposals to promote "phased retirement," a process that combines reduced hours of work with receipt of pension income.

The Aging of the Labor Force: 2005 to 2025

As the members of the "baby boom" generation — people born between 1946 and 1964 — reach retirement age, the demographic profile of the American population will undergo a profound change. According to the Bureau of the Census, the proportion of the U.S. population age 65 and older will increase from 12.4% in 2005 to 18.2% by 2025. The age-distribution those 25 to 64 years old already is undergoing a substantial shift toward a greater number of older individuals and a relative scarcity of young people entering the labor force.

The data presented in **Table 1** show how the age profile of the U.S. population will change between 2005 and 2025. According to the Bureau of the Census, there are 193 million Americans age 25 or older in 2005. By 2025, this number will increase by 22% to almost 236 million. However, the number of people 25 to 54 years old — the ages when labor force participation rates are highest — will increase by only 3.8%. At the same time, the number of people between the ages of 55 and 64 is projected to increase by 11 million, or more than 36%. In other words, while the number of people between the ages of 25 and 64 is projected to increase by about 16 million between 2005 and 2025, more than two-thirds of the increase is projected to occur among people between the ages of 55 and 64.

Table 1. U.S. Population Age 25 and Older, 2005 and 2025
(Numbers in thousands)

	Age groups					
Year	**25 to 34**	**35 to 44**	**45 to 54**	**55 to 64**	**65 and up**	**Total**
2005						
Male	20,081	21,773	20,852	14,618	15,299	**92,623**
Female	19,608	21,878	21,589	15,758	21,398	**100,231**
Total	**39,689**	**43,651**	**42,441**	**30,376**	**36,697**	**192,854**
2025						
Male	22,529	22,886	20,241	20,130	27,801	**113,587**
Female	21,906	22,512	20,485	21,290	35,724	**121,917**
Total	**44,435**	**45,398**	**40,726**	**41,420**	**63,525**	**235,504**
Change	**4,746**	**1,747**	**-1,715**	**11,044**	**26,828**	**42,650**
% change	*12.0%*	*4.0%*	*-4.0%*	*36.4%*	*73.1%*	*22.1%*

Source: U.S. Department of Commerce, Bureau of the Census.

Long-Term Trends in Labor Force Participation Rates

The *labor force participation rate* — the percentage of the population that is either employed or unemployed and looking for work — varies by age and sex. Moreover, labor force participation rates have changed over time as people have responded to economic incentives and as the norms and values of society have changed with respect to the employment of women and the retirement of older workers. Also, as the United States has moved from an economy based on "smokestack industries" such as mining and manufacturing to a service-based economy, there has been an increase in demand for highly-educated workers and relatively less demand for workers who are able to perform physically demanding labor. At the same time that the economy has been producing jobs that can be done by workers of more varied physical abilities, the two-earner couple has become the rule rather than the exception it was 30 or 40 years ago. Finally, with near universal coverage by Social Security and about half of all workers participating in an employer-sponsored pension or retirement savings plan, many workers now anticipate retirement as an opportunity for leisure and recreation rather than as a time of financial dependency on their children.

Men who are over the age of 55 are less likely to participate in the labor force today than their counterparts of a half-century ago. According to data from the Bureau of Labor Statistics, in the 1950s, 5 out of 6 men ages 55 to 64 participated in the labor force — that is, they were either working or actively looking for work.[1] (See **Table 2**). By 1985, only 2 out of 3 men in that age group participated in the labor force. Most of the decline occurred over a relatively brief period, from about 1970 to the mid-1980s. Among men 65 and older, the decline in labor force participation began earlier, but it also appears to have ended around 1985. Between 1950 and 1985, the labor force participation rate among men 65 and older fell from 46% to about 16%. Since the mid-1980s, the labor force participation rate among men ages 55 to 64 years has remained in the range of 66% to 69%, while the rate for those age 65 and older has increased modestly, from 16% to 19%.

From 1950 to the present, women's labor force participation has steadily increased. Among women ages 55 to 64, the labor force participation rate rose from 27% in 1950 to 45% in 1990, and to 56% in 2004. Among women age 65 and older, however, the labor force participation rate has changed little over the last 50 years, remaining between 8% and 11% over most of the 1950 — 2004 period.

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[1] Labor force participation rates are annual averages from the monthly CPS data. They are published annually in the January issue of the BLS publication, *Employment and Earnings*.

Table 2. Labor Force Participation Rates, 1950 to 2004

Men	Age groups		
Year	**25 to 54**	**55 to 64**	**65 and up**
1950	*96.5%*	*86.9%*	*45.8%*
1955	*97.4*	*87.9*	*39.6*
1960	*97.0*	*86.8*	*33.1*
1965	*96.7*	*84.6*	*27.9*
1970	*95.8*	*83.0*	*26.8*
1975	*94.4*	*75.6*	*21.6*
1980	*94.2*	*72.1*	*19.0*
1985	*93.9*	*67.9*	*15.8*
1990	*93.4*	*67.8*	*16.3*
1995	*91.6*	*66.0*	*16.8*
2000	*91.6*	*67.3*	*17.5*
2001	*91.3*	*68.1*	*17.7*
2002	*91.0*	*69.2*	*17.8*
2003	*90.6*	*68.7*	*18.6*
2004	*90.5*	*68.7*	*19.0*

Women	Age groups		
Year	**25 to 54**	**55 to 64**	**65 and up**
1950	*36.8%*	*27.0%*	*9.7%*
1955	*39.8*	*32.5*	*10.6*
1960	*42.9*	*37.2*	*10.8*
1965	*45.2*	*41.1*	*10.0*
1970	*50.1*	*43.0*	*9.7*
1975	*55.1*	*40.9*	*8.2*
1980	*64.0*	*41.3*	*8.1*
1985	*69.6*	*42.0*	*7.3*
1990	*74.0*	*45.2*	*8.6*
1995	*75.6*	*49.2*	*8.8*
2000	*76.8*	*51.8*	*9.4*
2001	*76.4*	*53.0*	*9.7*
2002	*76.0*	*55.1*	*9.9*
2003	*75.6*	*56.6*	*10.6*
2004	*75.3*	*56.3*	*11.1*

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Recent Employment Trends Among People Age 55 and Older

Factors that influence the rate of employment among persons aged 55 years and older include the state of the job market, the availability of health insurance, eligibility for Social Security benefits, and both the prevalence and design of employer-sponsored pensions. Labor force participation among people 55 and older might, for example, be affected by the trend away from defined-benefit pension plans, which often include early-retirement subsidies and pay a guaranteed benefit for life, toward defined contribution plans, which are age-neutral in design and often pay out a single lump sum at retirement. The *National Compensation Survey* indicates that in 2005, only 21% of workers in the private sector participated in defined-benefit pension plans, which by law must offer retirees the option to receive their pension as an annuity.[2]

Data collected by the Census Bureau indicate that from 1996 to 2005, employment remained generally steady among men 55 to 61 years old and rose among women in this age group.[3] (See **Table 3** and **Table 4**). Of men ages 55 to 61, 72.6% were employed in March 2005, compared to 72.2% in March 1996. Employment among women ages 55 to 61 rose to 61% in March 2005 from 54% in March 1996. Among both men and women ages 62 to 64, employment rose steadily throughout the period. Fifty-one percent of men were employed in March 2005, compared to 43% in March 1996. Throughout the period, about four-fifths of these men worked full-time. Among women ages 62 to 64, employment increased from 32% in March 1996 to 37% in March 2005. The percentage of 62 to 64 year-old working women who were employed *full-time* increased from 59% to 67%.

Among men 65 to 69 years old, employment has risen modestly in the last ten years. From 1996 through 2000, on average, 27.2% of men were employed in March of each year. From 2001 to 2005, on average, 30.7% of men in this age group were employed in March of each year. It is notable, however, that the percentage of employed 65 to 69 year-old men who worked *full-time* rose from 57% in March 1996 to 68% in March 2005. Employment also has increased moderately among women ages 65 to 69 over the past decade. An average of 18.3% of women in this age group were employed in March of each year from 1996 through 2000. From 2001 through 2005, the average rate of employment among women 65 to 69 years old was 21.6%. The percentage of 65- to 69-year-old working women who worked a full time schedule rose from 40% in 1996 to 51% in 2005. Among both men and women age 70 and older, rates of employment changed little from 1996 through 2005.

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[2] *National Compensation Survey: Employee Benefits in Private Industry*, Summary 05-01, U.S. Department of Labor, Bureau of Labor Statistics, August 2005.

[3] The labor force participation rates discussed in the previous section were based on annual averages of monthly data. The employment data in this section are from the March supplement to the CPS, and show employment in the week prior to the CPS interview. The March CPS files were used for this analysis because they include detailed data about sources of income in the previous year. CRS used information about current labor force status rather than information about labor force status in the previous year because an individual who reported that he or she both worked and received pension income during the previous year might have worked and received pension income consecutively rather than concurrently.

Table 3. Employment of Men Age 55 and Older, 1996 to 2005

Age in March:	Population (000s)	Number employed (000s)	Percent employed	Employment: full-time	Employment: part-time
55 to 61					
1996	7,409	5,349	***72.2***	*91.2*	*8.8*
1997	7,523	5,404	***71.8***	*90.6*	*9.4*
1998	7,855	5,664	***72.1***	*91.4*	*8.7*
1999	8,174	5,990	***73.3***	*91.7*	*8.3*
2000	8,204	5,849	***71.3***	*92.3*	*7.7*
2001	8,479	6,138	***72.4***	*91.6*	*8.4*
2002	9,307	6,608	***71.0***	*91.9*	*8.1*
2003	9,870	7,050	***71.4***	*92.0*	*8.0*
2004	10,388	7,537	***72.6***	*92.0*	*8.0*
2005	10,554	7,666	***72.6***	*92.1*	*8.0*
62 to 64					
1996	2,681	1,159	***43.2***	*77.8*	*22.2*
1997	2,733	1,255	***45.9***	*79.2*	*20.8*
1998	2,812	1,283	***45.6***	*80.9*	*19.1*
1999	2,785	1,297	***46.6***	*78.4*	*21.6*
2000	2,927	1,380	***47.2***	*77.9*	*22.1*
2001	2,771	1,284	***46.3***	*77.2*	*22.8*
2002	3,059	1,491	***48.7***	*78.1*	*21.9*
2003	3,279	1,539	***46.9***	*79.7*	*20.3*
2004	3,143	1,517	***48.3***	*81.6*	*18.4*
2005	3,481	1,777	***51.1***	*79.5*	*20.6*
65 to 69					
1996	4,522	1,237	***27.3***	*56.7*	*43.3*
1997	4,321	1,150	***26.6***	*56.8*	*43.2*
1998	4,286	1,085	***25.3***	*57.0*	*43.0*
1999	4,298	1,136	***26.4***	*55.7*	*44.3*
2000	4,376	1,330	***30.4***	*60.5*	*39.5*
2001	4,449	1,328	***29.9***	*63.2*	*36.8*
2002	4,451	1,358	***30.5***	*60.0*	*40.0*
2003	4,318	1,385	***32.1***	*63.2*	*36.8*
2004	4,566	1,425	***31.2***	*63.5*	*36.5*
2005	4,814	1,428	***29.7***	*67.5*	*32.5*
70 and older					
1996	8,738	989	***11.3***	*44.2*	*55.8*
1997	9,083	1,063	***11.7***	*45.7*	*54.3*
1998	9,238	970	***10.5***	*48.0*	*52.0*
1999	9,429	1,030	***10.9***	*44.8*	*55.2*
2000	9,510	1,169	***12.3***	*48.5*	*51.5*
2001	9,730	1,198	***12.3***	*48.1*	*51.9*
2002	9,785	1,141	***11.7***	*51.1*	*48.9*
2003	10,210	1,209	***11.8***	*54.2*	*45.8*
2004	10,230	1,264	***12.4***	*50.4*	*49.6*
2005	10,337	1,379	***13.3***	*50.8*	*49.2*

Source: Congressional Research Service analysis of the *Current Population Survey*.

Table 4. Employment of Women Age 55 and Older, 1996 to 2005

Age in March:	Population (000s)	Number employed (000s)	Percent employed	Employment: full-time	Employment: part-time
55 to 61					
1996	7,947	4,314	***54.3***	*74.5*	*25.5*
1997	8,142	4,582	***56.3***	*77.1*	*22.9*
1998	8,515	4,896	***57.5***	*77.7*	*22.9*
1999	8,743	4,904	***56.1***	*76.8*	*23.2*
2000	9,041	5,250	***58.1***	*77.2*	*22.8*
2001	9,296	5,365	***57.7***	*77.3*	*22.7*
2002	10,023	5,881	***58.7***	*76.7*	*23.3*
2003	10,677	6,529	***61.2***	*78.2*	*21.8*
2004	11,206	6,696	***59.8***	*77.4*	*22.6*
2005	11,650	7,086	***60.8***	*78.9*	*21.1*
62 to 64					
1996	3,044	968	***31.8***	*59.3*	*40.7*
1997	3,069	1,047	***34.1***	*62.5*	*37.5*
1998	3,065	1,040	***33.9***	*61.2*	*38.8*
1999	3,199	1,102	***34.4***	*60.1*	*39.9*
2000	3,209	1,109	***34.6***	*61.4*	*38.6*
2001	3,236	1,185	***36.6***	*62.6*	*37.4*
2002	3,479	1,306	***37.6***	*61.9*	*38.1*
2003	3,552	1,307	***36.8***	*62.1*	*37.9*
2004	3,618	1,381	***38.2***	*65.3*	*34.7*
2005	3,834	1,401	***36.5***	*67.2*	*32.8*
65 to 69					
1996	5,224	865	***16.6***	*40.4*	*59.6*
1997	5,180	936	***18.1***	*42.1*	*57.9*
1998	5,075	941	***18.5***	*44.5*	*55.5*
1999	5,022	941	***18.7***	*40.9*	*59.1*
2000	4,976	983	***19.7***	*44.2*	*55.8*
2001	4,933	947	***19.2***	*42.3*	*57.7*
2002	5,146	982	***19.1***	*49.6*	*50.4*
2003	5,121	1,152	***22.5***	*51.7*	*48.3*
2004	5,252	1,303	***24.8***	*48.7*	*51.3*
2005	5,311	1,193	***22.5***	*51.4*	*48.6*
70 and older					
1996	13,174	681	***5.2***	*30.3*	*69.7*
1997	13,294	639	***4.8***	*32.8*	*67.2*
1998	13,484	740	***5.5***	*31.9*	*68.1*
1999	13,646	807	***5.9***	*35.0*	*65.0*
2000	13,759	816	***5.9***	*36.3*	*63.7*
2001	13,866	840	***6.1***	*39.3*	*60.7*
2002	14,388	850	***5.9***	*38.0*	*62.0*
2003	14,585	896	***6.1***	*40.7*	*59.3*
2004	14,610	937	***6.4***	*41.0*	*59.0*
2005	14,752	1,041	***7.1***	*37.1*	*62.9*

Source: Congressional Research Service analysis of the *Current Population Survey*.

Retirement Income Among Older Workers

An important consideration for anyone contemplating retirement is whether future sources of income will be adequate to maintain his or her desired standard of living. **Table 5** shows the proportion of men and women age 55 and older who reported on the Census Bureau's *Current Population Survey* (CPS) that they received pension income of some kind during the calendar year prior to the survey. In this table, "pension income" includes employer-sponsored pensions (including military retirement), veterans' pensions, and periodic payments from annuities, insurance policies, individual retirement accounts, 401(k) accounts, and Keogh plans for the self-employed. Not surprisingly, the proportion of men and women who receive income from a pension or other retirement plan increases with age. In 2004, only 18% of men ages 55 to 64 received income from a pension or other retirement plan. Among those age 65 or older, 45% had income from pensions or retirement savings plans. The patterns among women were similar: only 11.5% of 55- to 64-year-old women received income from pensions or retirement savings plans in 2004, while 28% of those age 65 or older received such income.

The 18% of men ages 55 to 64 who were receiving pension income in 2004 represents a decline from 23% who received such income in 1995. Over the same period, the proportion of men age 65 or older receiving pension income also fell slightly, from 47% to 45%. The proportion of women ages 55 to 64 with pension income was more stable, at 11% to 12% throughout the 1995 — 2004 period. Among women 65 or older, 28% received income from pensions and retirement savings plans in 2004, about the same as in 1995.

To study the relationship between employment rates and receipt of pension distributions, we grouped the men and women into two age groups, 55 to 64 and 65 and older and calculated the correlation coefficient between employment and receipt of pension income. Among men, there is a negative correlation between receipt of pension income and employment. Over the period from 1995 to 2004, the correlation between current employment and receipt of pension income was -0.66 for men 55 to 64 years old and -0.72 for men 65 and older. However, the statistics do not tell us *why* employment has risen among men 55 and older while the receipt of pension income has fallen. One possible explanation is that each year a smaller percentage of workers are covered by defined benefit plans, which often have generous early retirement subsidies and pay a monthly benefit that is guaranteed for life. Workers whose main retirement plan is a defined contribution plan (such as a 401(k)) might be choosing to delay retirement in order to build up larger account balances or to make up for investment losses.

Among women, employment rates and the receipt of pension income are not strongly correlated (0.27 for women 55-64 and 0.33 for women 65 and older). This is partly due to the fact that the rate of labor force participation among women under age 65 has been rising steadily over many years. Thus, one reason that the percentage of *all* women 55 and older who receive pension income has not fallen along with that of men is that an increasing percentage of women have earned retirement benefits through their own employment. This could mask a decline in the percentage of working women who are (or will be) eligible to receive pension distributions.

Table 5. Receipt of Income from Employer Pensions and Retirement Savings Plans

	All individuals age 55 and older (000s)					
	Individuals 55 to 64 years old			Individuals age 65 and older		
Men	Number of people	Number of recipients	*Percentage*	Number of people	Number of recipients	*Percentage*
1995	10,090	2,279	*22.6*	13,260	6,206	*46.8*
1996	10,256	2,177	*21.2*	13,404	6,316	*47.1*
1997	10,667	2,152	*20.2*	13,524	6,317	*46.7*
1998	10,959	2,195	*20.0*	13,727	6,457	*47.0*
1999	11,131	2,174	*19.5*	13,886	6,358	*45.8*
2000	11,249	2,124	*18.9*	14,179	6,099	*43.0*
2001	12,366	2,371	*19.2*	14,235	6,276	*44.1*
2002	13,149	2,372	*18.0*	14,527	6,414	*44.2*
2003	13,531	2,450	*18.1*	14,797	6,656	*45.0*
2004	14,034	2,578	*18.4*	15,151	6,778	*44.7*
Women						
1995	10,991	1,164	*10.6*	18,398	5,025	*27.3*
1996	11,210	1,287	*11.5*	18,474	4,933	*26.7*
1997	11,580	1,253	*10.8*	18,559	5,114	*27.6*
1998	11,943	1,403	*11.7*	18,668	5,186	*27.8*
1999	12,250	1,439	*11.7*	18,735	5,513	*29.4*
2000	12,532	1,475	*11.8*	18,799	5,426	*28.9*
2001	13,501	1,525	*11.3*	19,535	5,412	*27.7*
2002	14,229	1,572	*11.0*	19,706	5,379	*27.3*
2003	14,824	1,705	*11.5*	19,862	5,610	*28.2*
2004	15,484	1,776	*11.5*	20,063	5,603	*27.9*

Source: Congressional Research Service analysis of the *Current Population Survey*.

Notes: Retirement plans may include a traditional pension, a retirement savings plan, or both. The year shown is the year when the income was received, which is the calendar year preceding the March CPS interview.

Employment Among Recipients of Retirement Income. The data displayed in Table 5 show the number and percentage of people 55 and older who received pensions or distributions from retirement accounts. The data in **Table 6** show that, among men ages 55 to 64 who received income from a pension or retirement savings plan during 2004, 38.1% were employed either full or part time in March 2005. Relatively few men age 65 or older who received income from pensions or retirement savings plans also engage in paid employment: only 10% to 12% were employed, on average, at any point in the ten-year period shown in the table. Women who receive pension income were less likely than men to be employed. Among women 55 to 64 years old who received income from a pension or retirement savings plan in 2004, 31.1% were employed in March 2005. Among women age 65 or older who received income from a pension or retirement savings plan, only 6% to 8%, on average, were employed at any time during the ten-year period in the table.

Table 6. Employment of Recipients of Employer Pensions and Retirement Savings Plans

	Retirement income recipients age 55 and older (000s)					
	Recipients, age 55 to 64			Recipients, age 65 and older		
Men	Number of recipients	Number employed	*Percentage*	Number of recipients	Number employed	*Percentage*
1995	2,279	831	*36.5*	6,206	726	*11.7*
1996	2,177	832	*38.2*	6,316	724	*11.5*
1997	2,152	778	*36.2*	6,317	648	*10.3*
1998	2,195	870	*39.7*	6,457	706	*10.9*
1999	2,174	799	*36.7*	6,358	739	*11.6*
2000	2,124	797	*37.5*	6,099	721	*11.8*
2001	2,371	907	*38.3*	6,276	739	*11.8*
2002	2,372	827	*34.9*	6,414	745	*11.6*
2003	2,450	959	*39.1*	6,656	839	*12.6*
2004	2,578	982	*38.1*	6,778	836	*12.3*
Women						
1995	1,164	324	*27.9*	5,025	281	*5.6*
1996	1,287	416	*32.3*	4,933	277	*5.6*
1997	1,253	363	*29.0*	5,114	404	*7.9*
1998	1,403	370	*26.3*	5,186	426	*8.2*
1999	1,439	442	*30.7*	5,513	401	*7.3*
2000	1,475	488	*33.1*	5,426	436	*8.0*
2001	1,525	439	*28.8*	5,412	393	*7.3*
2002	1,572	530	*33.7*	5,379	425	*8.0*
2003	1,705	560	*32.9*	5,610	454	*8.1*
2004	1,776	553	*31.1*	5,603	416	*7.4*

Source: Congressional Research Service analysis of the *Current Population Survey*.

Note: Retirement plans may include a traditional pension, a retirement savings plan, or both. The income year is the year prior to the survey. Employment is in current year.

Social Security Retirement Benefits

Age When Benefits Begin. In 2005, full retirement benefits under Social Security are available at age 65 and 6 months. Social Security retired-worker benefits are first available at age 62, but benefits that begin before the full retirement age are permanently reduced. In 2005, a worker who begins receiving Social Security at age 62 has his or her benefit permanently reduced by 25% below the amount that would be payable at the full retirement age. As a result of the *Social Security Amendments of 1983* (P.L. 98-21), the Social Security full retirement age is being increased to 67 incrementally over a 22-year period. Reduced benefits will continue to be available as early as age 62, but when the full retirement age reaches 67, the benefit payable at 62 will be 30% less than the amount that would be paid if benefits were claimed at age 67.

Most people choose to begin receiving Social Security retirement benefits before age 65. The data presented in **Table 7** show that 76% of men and 79% of women who began receiving Social Security retired-worker benefits in 2003 applied for benefits before age 65. In 2000, a higher-than-average percentage of new benefits were awarded to persons 65 and older. This was mainly attributable to the repeal of the Social Security *earnings test* for workers who are at or above the Social Security normal retirement age. Prior to 2000, the earnings test reduced the Social Security benefits of recipients under age 70 whose earnings exceeded specific thresholds. P.L. 106-182 eliminated the earnings test for people at the *full retirement age* or older, effective January 1, 2000.[4] The earnings test now applies only to beneficiaries who are under the normal retirement age. With the repeal of the earnings test for people age 65 and older, workers who had deferred receipt of Social Security because their earnings would have resulted in a benefit reduction had an incentive to apply for benefits. Workers who delay receipt of benefits until they are beyond the full retirement age remain eligible for the *delayed retirement credit,* which permanently increases their benefits, providing an incentive for workers to remain employed.

Table 7. Social Security Retired Worker Benefit Awards, by Age

	Age in year when retired worker benefits began					
	62 to 64		**65**		**Over 65**	
Men	Awards	*Percentage of all awards*	Awards	*Percentage of all awards*	Awards	*Percentage of all awards*
1990	637,100	*74.4%*	158,300	*18.5%*	60,800	*7.1%*
1995	614,700	*76.1*	144,400	*17.9*	48,700	*6.0*
1999	623,800	*75.9*	139,200	*16.9*	58,700	*7.2*
2000*	637,000	*64.5*	226,000	*22.9*	124,800	*12.6*
2001	650,000	*75.1*	179,000	*20.7*	36,700	*4.2*
2002	673,000	*76.9*	171,600	*19.6*	30,300	*3.5*
2003	653,300	*76.4*	173,300	*20.2*	28,900	*3.4*
	62 to 64		**65**		**Over 65**	
Women	Awards	*Percentage of all awards*	Awards	*Percentage of all awards*	Awards	*Percentage of all awards*
1990	494,800	*80.0%*	85,900	*13.9%*	37,700	*6.1%*
1995	492,900	*79.9*	87,800	*14.2*	36,300	*5.9*
1999	524,800	*79.1*	92000	*13.9*	46400	*7.0*
2000*	574,700	*74.5*	118,700	*15.4*	77,700	*10.1*
2001	556,200	*78.5*	102,000	*14.4*	50,100	*7.1*
2002	581,700	*80.7*	103,500	*14.4*	35,400	*4.9*
2003	582,400	*78.9*	111,000	*15.1*	44,300	*6.0*

* The earnings test was repealed in 2000 for workers above the Social Security full retirement age.

Source: *Annual Statistical Supplement to the Social Security Bulletin*, various years.

Note: Initial awards exclude conversions from disabled worker to retired worker benefits.

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[4] In 2005, a Social Security recipient under the full retirement age can earn up to $12,000 without a benefit reduction. Benefits are cut by $1 for each $2 earned over that amount.

Retired Worked Beneficiaries as a Percentage of Each Age Category. The data presented in **Table 8** show that in 2003 the proportion of men ages 62 to 64 who were receiving Social Security retired worker benefits was 6.9 percentage points lower than in 1995. This decline coincided with the rising employment rates among men in this age group. (See **Table 4**.) The decline in the percentage of 62- to 64-year-old men receiving Social Security benefits during this period could have several causes, including the move away from defined benefit plans to defined contribution plans among employers in the private sector and the desire among workers under age 65 to remain covered under an employer-sponsored health insurance plan until they become eligible to participate in Medicare at age 65. Among women, the percentage of 62- to 64-year-olds who were receiving Social Security retired worker benefits was generally stable over the period from 1990 to 2000 at about 36%. By 2003, it had fallen slightly to 34.0%.

Among men ages 65 to 69, the proportion who were receiving Social Security retired worker benefits rose abruptly from 84% in 1999 to 91% in 2000, coinciding with the repeal of the earnings test for workers at or above the full retirement age. Among women ages 65 to 69, the proportion who were receiving Social Security retired worker benefits increased from 56% in 1990 to 65% in 2003. This trend is consistent with the long-term increase in the proportion of women who are eligible for Social Security benefits based on their own earnings histories rather than as the spouses of retired workers.

Table 8. Social Security Retired Worker Beneficiaries, by Age

(Retired worker beneficiaries, in thousands)						
	62 to 64		**65 to 69**		**70 and over**	
Men	Number	*Percentage of age group*	Number	*Percentage of age group*	Number	*Percentage of age group*
1990	1,336	*45.3%*	3,898	*83.8%*	7,751	*91.7%*
1995	1,320	*46.8*	3,900	*83.4*	8,694	*91.2*
1999	1,302	*43.4*	3790	*84.3*	9238	*89.9*
2000	1,330	*43.2*	4,076	*90.8*	9,366	*90.3*
2001	1,333	*41.8*	4,125	*91.4*	9,473	*90.3*
2002	1,333	*40.4*	4,198	*91.0*	9,578	*91.1*
2003	1,331	*39.9*	4,255	*91.8*	9,667	*91.9*
	62 to 64		**65 to 69**		**70 and over**	
Women	Number	*Percentage of age group*	Number	*Percentage of age group*	Number	*Percentage of age group*
1990	1,167	*35.9%*	3,067	*55.6%*	7,607	*55.9%*
1995	1,128	*36.8*	3,058	*56.7*	8,570	*57.7*
1999	1,180	*35.6*	3,070	*60.1*	9,203	*59.4*
2000	1,223	*36.0*	3,209	*63.1*	9,302	*59.7*
2001	1,237	*35.3*	3,284	*64.5*	9,390	*60.0*
2002	1,246	*34.4*	3,369	*63.2*	9,480	*59.6*
2003	1,256	*34.0*	3,475	*65.3*	9,563	*60.5*

Source: *Annual Statistical Supplement to the Social Security Bulletin*, various years.

Older Workers and "Phased Retirement"

In the traditional view of retirement, a worker moves from full-time employment to complete withdrawal from the labor force in a single step. In fact, however, some workers choose to continue working after they have retired from their "career" jobs. The process of retiring often occurs gradually over several years, with many workers retiring from year-round, full-time employment and moving to part-time or part-year work at another firm, often in a different occupation. The data in **Table 6**, for example, show that 38% of men and 31% of women aged 55 to 64 who received income from a pension in 2004 were employed in March 2005.

As members of the baby-boom generation begin to retire, millions of skilled and experienced workers will exit the labor force. As this occurs, employers may find it necessary to alter their employment practices and pension plans to induce some of those who would otherwise retire to remain on the job, perhaps on a part-time or part-year schedule. This process is sometimes referred to as *phased retirement*. No statutory definition of phased retirement exists, but one analyst has described it as "the situation in which an older individual is actively working for an employer part time or [on] an otherwise reduced schedule as a transition into full retirement. [It] may also include situations in which older employees receive some or all of their retirement benefits while still employed."[5]

Under current law, an employee can take distributions from an employer's defined benefit pension only after having separated from the employer or after reaching the pension plan's *normal retirement age*. By law, the normal retirement age cannot be greater than 65. Some employers have suggested phased retirement would be embraced by more firms if pension distributions could be paid to employees at a plan's *early retirement age*. Employers could offer in-service distributions to employees who have not reached the pension plan's normal retirement age only if the Internal Revenue Code and the Employee Retirement Income Security Act (ERISA) were amended to allow such early distributions.

Current Approaches to Phased Retirement. Employers have devised a number of strategies to retain the services of employees who are eligible for retirement and who might be lost to the firm if the only options available were full-time employment or full-time retirement. Some firms allow retirement-eligible employees to work fewer days per week or fewer hours per day. Some also permit employees to reduce their workload through job-sharing. Firms sometimes rehire retired employees on a part-time or temporary basis, or bring them back as contractors rather than as regular employees. Two of these arrangements — hiring retired former employees on a part-time or temporary basis and hiring retirees as contractors — require the individual to separate from the employer before returning under an alternative work arrangement. This introduces considerable uncertainty into the process for both the retiree and the employer, because once the employment relationship is severed, neither party is legally bound to renew it.

[5] Testimony of Wilma K. Schopp on behalf of the Association of Private Pension and Welfare Plans before the U.S. Senate Special Committee on Aging, April 3, 2000.

Phased Retirement and Pension Distributions. Unless an employee has reached a pension plan's normal retirement age, the plan cannot pay retirement benefits to the individual while he or she remains employed by the firm, even if only on a part-time basis. In order to qualify for the favorable tax status granted to tax-qualified pension plans, the plan must pay benefits only on condition of death, disability, termination of employment, plan termination, or at the normal retirement age.[6] A plan that pays benefits to an employee who has not yet reached the plan's normal retirement age could lose its tax-qualified status.[7] An employee who has reached the pension plan's *normal retirement age* can begin to receive distributions from the plan, even if he or she continues to be employed by the firm.[8] Likewise, an employee who has reached the plan's *early retirement age* can begin to receive distributions from the plan upon separation from the firm, provided that he or she has completed the required number of years of service stipulated by the plan. If a participant has separated from the employer and has begun receiving distributions from the plan at the early retirement age, he or she can continue to receive these distributions, even if at some future date the participant becomes re-employed by the plan sponsor. In order to retain the plan's tax-qualified status, however, the employer may be required to demonstrate to the Internal Revenue Service that "both a bona fide retirement (or other termination of employment) and a legitimate rehire have occurred."[9]

One way for a firm to offer phased retirement to these workers under current law, without jeopardizing the tax-qualified status of its pension plan, would be to lower the normal retirement age. For example, if the normal retirement age under the plan is 62 and the early retirement age is 55, the firm could reduce the normal retirement age to some age between 55 and 62. From the employer's point of view, there would be at least two potential drawbacks to such an approach. First, it could result in an unintended exodus of workers into retirement, because all eligible plan participants would be able to receive full pension benefits at an earlier age than previously. Second, it could increase the cost of funding the plan, because full benefits would be payable at a younger age.

Rather than reduce the normal retirement age in their pension plans, some employers would prefer that Congress amend the Internal Revenue Code to allow in-service pension distributions to employees who have reached the plan's early

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[6] 26 C.F.R. § 1.401-1(b)(1)(i).

[7] In a "tax-qualified" plan, employer contributions to the plan are deductible business expenses for the firm and neither the employer contributions nor investment earnings on those contributions are counted as income to the employee in the years that they occur; instead, pensions are taxed as income when the benefits are paid to plan participants in retirement. Usually, retirees are taxed at a lower marginal tax rate than when they worked.

[8] If a plan participant continues to work for an employer beyond the plan's normal retirement age, the plan must meet the statutory requirements for continued benefit accruals; see 26 U.S.C. § 411(b)(1)(H).

[9] Vivian Fields and Robert Hutchens, "Regulatory Obstacles to Phased Retirement in the For-Profit Sector" *Benefits Quarterly*, volume 18 (3), Third Quarter 2002.

retirement age (or some age between the early and normal retirement ages).[10] Some observers believe, however, that such a policy would be contrary to the main purpose of pension plans, which is to replace wage income during retirement. If employers were permitted to pay pension benefits to individuals still engaged in gainful employment, the benefits would become a tax-subsidized supplement to wages. Permitting in-service distributions to current employees who have not reached the plan's normal retirement age might allow employers to compensate current employees with pension funds, effectively reducing their operating expenses by shifting some costs that would otherwise be paid as wages to the pension fund.

Amending the Internal Revenue Code to permit in-service distributions at the early retirement age would alter incentives to work or retire, as well as how much to work and for whom to work. Consequently, it would affect both labor force participation and hours worked among older employees. The net effect of these changes in labor force participation and hours worked would be almost impossible to predict. Some workers who otherwise would have fully retired before the plan's normal retirement age would choose instead to continue working for their current employer on a reduced schedule, because they would be able to take partial pension distributions while still employed. This would tend to increase labor force participation. Other workers who would have taken early retirement and then sought other employment might choose instead to remain with their current employer on a reduced schedule. The effect of this change in behavior on hours worked might be close to neutral, depending on the wages available from alternative employment and the income received from pension distributions. Finally, some employees who otherwise would have chosen to continue working until reaching the plan's normal retirement age might instead reduce their work schedule and supplement their earnings with partial distributions from the retirement plan. This would tend to reduce total hours worked.

Distributions from 401(k) Plans. In-service distributions from defined contribution plans that occur before the participant reaches age 59½ are subject to a 10% tax penalty in addition to ordinary income taxes. Distributions may begin as early as age 55, however, if the employee separates from his employer under an early retirement plan. Some advocates of phased retirement arrangements have suggested that the minimum age for in-service distributions from defined contribution plans should be lowered from 59½ to 55.[11] The effect on labor force participation of such a change in tax policy would likely be very similar to the effect of allowing in-service

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[10] Requirements for qualification of pension plans are defined at 26 U.S.C. § 401(a).

[11] It might also seem reasonable that if legislation were passed to allow in-service distributions from an employer's defined benefit plan at the plan's early retirement age, then distributions from the employer's defined contribution plan should be permitted at the same age (perhaps with a lower limit of 55). However, such a policy would suffer from at least two drawbacks. First, the minimum age for in-service distributions from defined contribution plans, which is now the same for all such plans, would differ from firm to firm, thus making the retirement planning process even more confusing for workers and their families. Second, it would be administratively difficult — and in some cases, perhaps, impossible — to tie the minimum age for in-service distributions in the defined contribution plan to the early retirement age specified in the employer's defined benefit plan.

distributions from a defined benefit plan at the plan's early retirement age. Some workers who might have fully retired from the labor force earlier than age 59½ so that they could begin taking distributions from the plan would be induced to work longer. Others who would have taken early retirement and then sought work elsewhere would remain with their current employers, because they would be able to combine wages from part-time work with distributions from the retirement plan. Finally, some employees who otherwise would have chosen to continue working until age 59½ or later would reduce their work schedules and supplement their earnings with distributions from the retirement plan.

Proposed Regulations on Phased Retirement. On November 9, 2004, the Treasury Department issued a proposed regulation for in-service pension distributions under phased retirement arrangements. Under the proposed regulation, phased retirement arrangements would be optional for employers and voluntary for employees. The phased retirement program would have to be included in the employer's written retirement plan documents. The proposed regulation would permit employees to receive a proportional share of their accrued benefit based on the percentage reduction in their hours worked. Hours worked under a phased retirement arrangement could not exceed 80% of the employee's full-time work schedule. According to the proposed regulation, the maximum benefit distributed during a phased retirement period would be equal to the employee's total accrued benefit on the date that the phased retirement begins, multiplied by the percentage reduction in the employee's hours of work. The proposed regulation would require the employee's full-time compensation to be imputed – with a proportionate reduction based on the employee's actual service – to ensure that a participant is not disadvantaged by having chosen phased retirement. The proposed regulation also would:

- prohibit lump sum or rollover distributions as part of a phased retirement plan;
- allow phased retiree participants to continue accruing additional pension benefits on a full-time basis;
- allow phased retiree participants to receive the same benefits upon full retirement as similarly situated employees who did not elect phased retirement;
- maintain the status of highly compensated employees who elect phased retirement;
- direct that an employee's final retirement benefit is comprised of the phased retirement benefit and the balance of the accrued benefit under the plan; and
- require periodic testing to ensure that employees in phased retirement programs are working reduced hours.